

Contemporary Concern
Study

under the guidance of
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Behavioural Aspects of Financial Analysts

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Introduction

Motivation	Data
<ul style="list-style-type: none">❖ Behaviour affects analyst forecasts❖ Studies on walkdown, improvement❖ Impact of size and experience unknown	<ul style="list-style-type: none">❖ I/B/E/S CD-ROM❖ Analyst estimates and actual earnings❖ 9 years of data❖ Approx 3.3 million records

Definitions

Forecast		
Analyst	Forecast date	Estimate
Broker House	Release date	Actual
	Period	Error
Error	Optimism	walkdown
Absolute	Accuracy	Improveme
Size	Period	Experience
Small	Days	Company
Large	Forecast S	Industry
		Overall

1 year to release date

Release date

Impact of Size

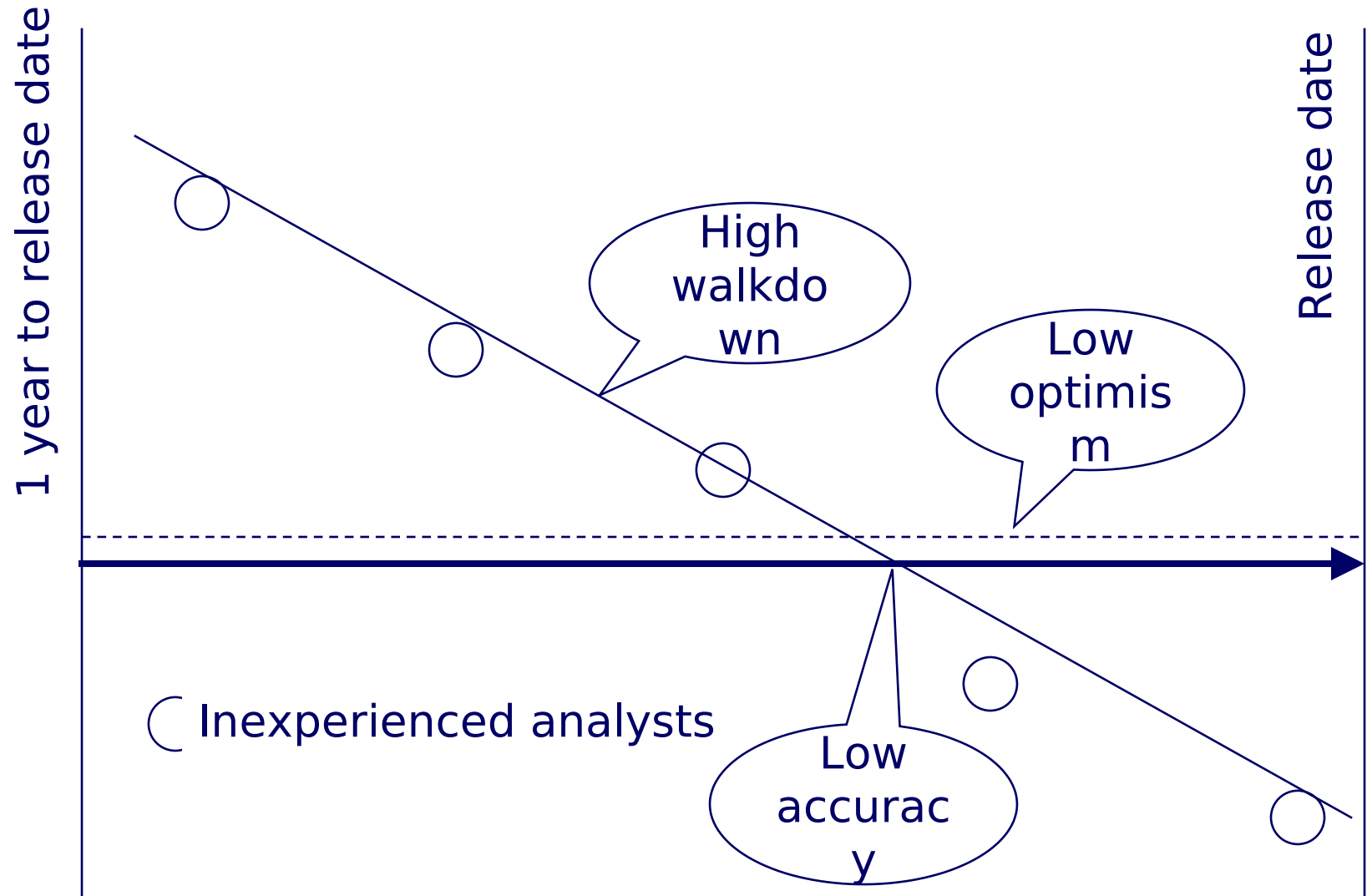
Methodology	Results
<ul style="list-style-type: none">❖ Error and absolute error for each forecast❖ Absolute errors beyond 200% filtered❖ Population divided into two by median of broker house size❖ Walkdown and improvement calculated for each sample	<ul style="list-style-type: none">❖ Walkdown is 29.7% a year (significant)❖ Improvement is 55.9% a year (significant)❖ Large broker houses have smaller walkdowns (not significant)❖ Large broker houses have larger improvements (not significant)
Walkdown and improvement exist. Size does not matter.	

Experience of Analysts

Methodology	When analysing	Accuracy up
<ul style="list-style-type: none"> ❖ Error and absolute error for each forecast ❖ Forecast period of one year ❖ 5% of outliers eliminated ❖ Analysts making forecasts in first year discarded ❖ Regressed against days of experience and forecasts ❖ Split by median experience ❖ Compared variances 	Same company	0.73% pa *
	Same industry	0.39% pa *
	Different	0.05% pa ***
	When analysing	Optimism up
	Same company	0.07% pa ***
	Same industry	0.59% pa ***
	Different	0.60% pa *
	Variance of	Changes
	Error	Higher
	Absolute Error	Higher

**Accuracy and optimism up with experience.
Higher spread.**

Inexperienced Analysts

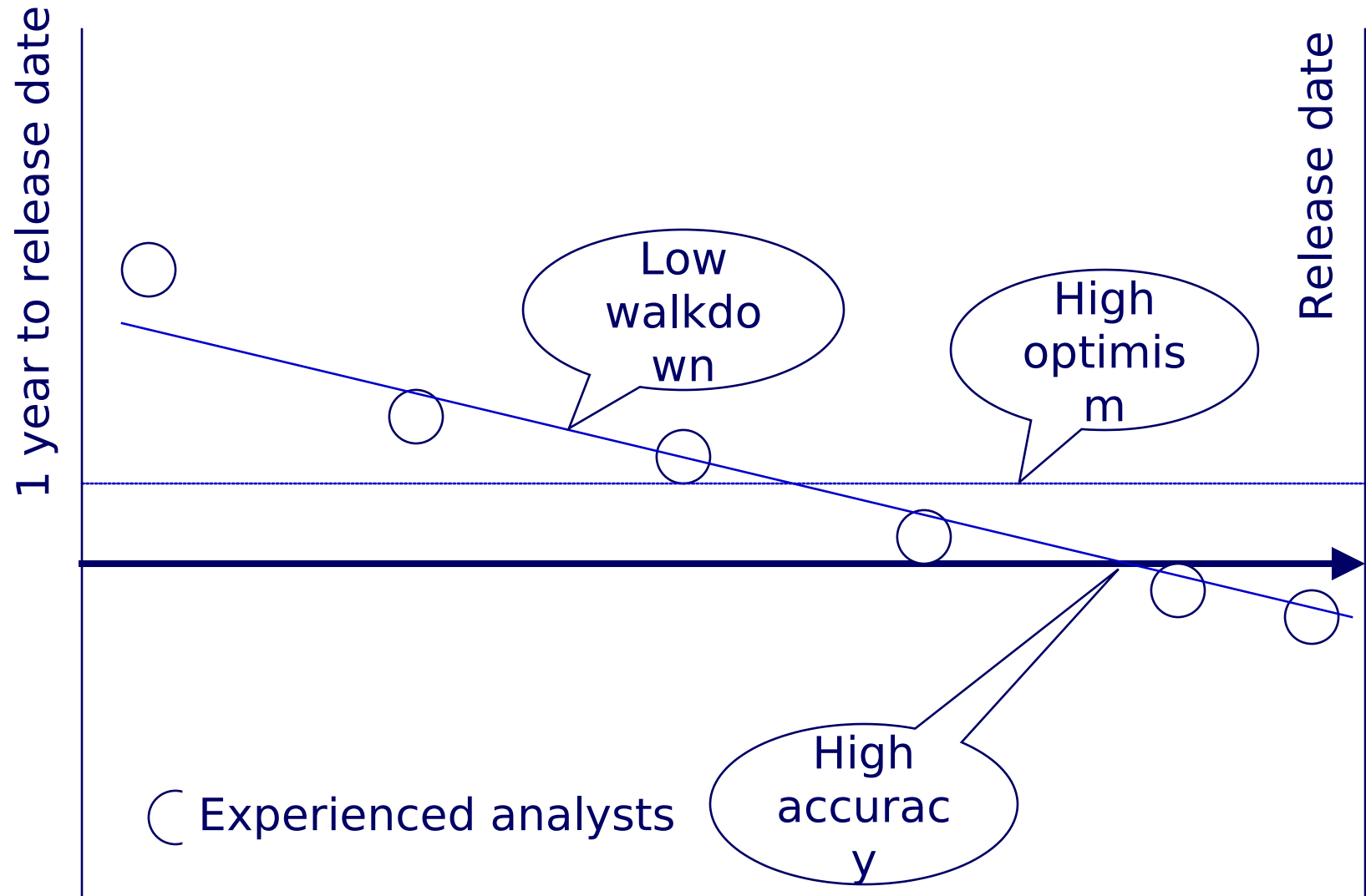


CCSF

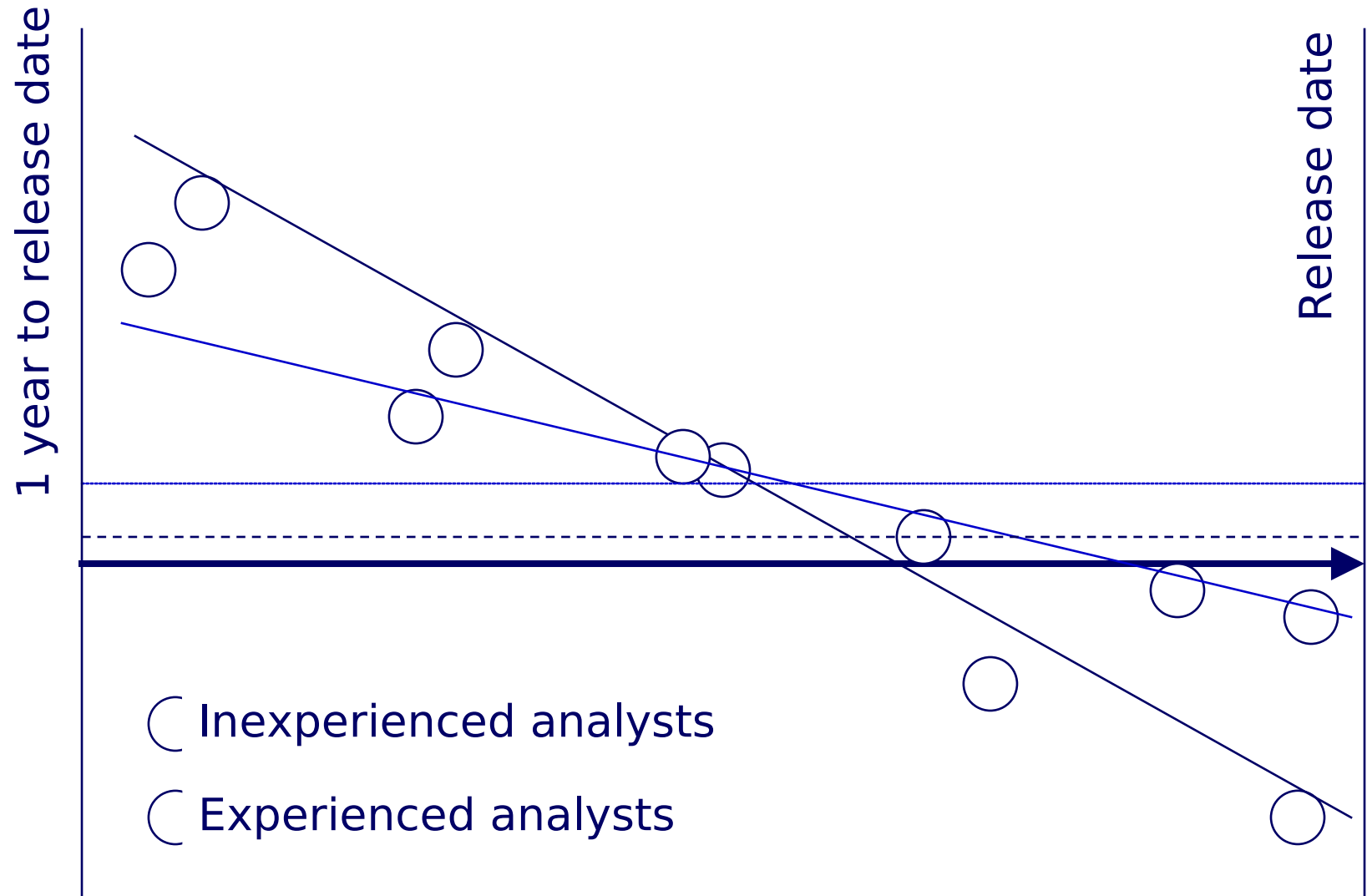
Behavioural

Finance

Experienced Analysts



All Analysts



Experience of Broker Houses

Methodology	When analysing	Accuracy up
	Same company	1.04% pa ***
	Same industry	1.14% pa *
	Different	0.00% pa *
	When analysing	Optimism up
	Same company	-1.54% pa *
	Same industry	0.75% pa *
	Different	0.01% pa *
	Variance of	Changes
❖ Error and absolute error for each forecast	Error	Lower
❖ Forecast period of one year	Absolute Error	Lower
❖ 5% of outliers eliminated		
❖ Houses making forecasts in first year discarded		
❖ Regressed against days of experience and forecasts		
❖ Split by median experience		
❖ Compared variances		

Industry learning. Lower spread.

Usefulness

Investors

- ❖ **When to follow a broker house**
- ❖ **When to follow an analyst**
- ❖ **Uncertainties involved**

Broker Houses

- ❖ **Recruiting decisions**
- ❖ **Nature of institutional & individual learning**
- ❖ **Job rotation**

Limitations & Directions

- **Using analysts as a measure of broker house size**
- **Explanations for volatility**
 - ★ **Nature of companies analyzed**
 - ★ **Herding versus industry-wide practices**

Overall experience	Error	Absolute error
Analyst	+	+
Broker house	-	-

- **Walkdown and improvement against experience**
- **Behavioural reasons for results**

Thank You